

**DAUFUSKIE ISLAND UTILITY COMPANY****DOCKET NO. 2014-346-WS****PRE-FILED SURREBUTTAL TESTIMONY OF CHARLES LOY  
BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION**

1   **Q:   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   **A:**   My name is Charles Loy. My business address is 919 Congress, Suite 800 Austin,  
3       Texas 78701. I am a Principal with GDS Associates, Inc. (“GDS”). GDS Associates,  
4       Inc. (“GDS”) is a utility consulting and engineering firm with its principal offices in  
5       Marietta, GA. My business address is 919 Congress, Suite 1110 Austin Texas 78701.

6   **Q:   DID YOU SUBMIT REHEARING DIRECT TESTIMONY IN THIS CASE?**

7   **A:**   Yes.

8   **Q:   HAVE YOU READ THE REBUTTAL TESTIMONY OF DIUC WITNESS**  
9       **JOHN F. GUASTELLA?**

10   **A:** Yes.

11   **Q:   WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12   **A:**   I will address Mr. Guastella’s so called “conclusive facts” that he presents toward the  
13       end of his Rebuttal Testimony regarding my recommendation to impute CIAC in rate  
14       base or, alternatively remove utility plant from rate base as not “used and useful”.  
15       Further, I will address the possibility if the Commission does not accept the  
16       recommendations presented in my Direct testimony.

**Q: HOW DOES MR. GAUSTELLA ADDRESS YOUR DIRECT TESTIMONY?**

**A:** Mr. Gaustella seems to “broad stroke” the fatal flaws in DIUC’s proposed plant values I addressed in my Direct Testimony as non-issues by presenting six so called “conclusive facts” that purport to establish that the issues I addressed are not pertinent. In fact, Mr. Gaustella’s “conclusive facts” are neither “conclusive” nor or they ”facts”. They are just plain untrue.

**Q: PLEASE ADDRESS THE FIRST THREE OF MR GAUSTELLA’S “CONCLUSIVE FACTS” CITE PRIOR SETTLEMENTS WITH THE COMMISSION.**

**A:** Mr. Gaustella’s first three “conclusive facts” argue that settlements of the 2005 Rate Case<sup>1</sup>, the 2008 approval of sale and transfer of the stock of Haig Point Utility Company, Inc. (“HPUC”) from Haig Point, Inc. to CK Materials LLC (“2008 Stock Transfer”)<sup>2</sup>, and the 2011 Rate Case<sup>3</sup> somehow establish that the \$4.6 million in utility plan donated by the developer to HPUC around 1985 is not properly categorized as a Contribution in Aid of Construction, as required by accepted ratemaking principals historically followed by this Commission. DIUC’s claim contradicts its previous agreements and is legally unsupportable.

- The 2005 Rate Case. That rate case does not establish a rate base. The Parties to the Settlement Agreement, which included DIUC, ORS, and Haig Point Club and

<sup>1</sup> Docket No. 2005-34-WS.

<sup>2</sup> Docket No. 2007-414-WS.

<sup>3</sup> Docket No. 2011-229-WS.

Community Association (“HPCCA”), reserved their right to challenge the utility’s rate base in future proceedings through the following settlement provision:

5. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair in any way their arguments or positions they may choose to make in future proceedings.

Therefore, any data from the 2005 Rate Case, including the utility’s rate base (which the Commission never expressly established for any future proceeding, in any event<sup>4</sup>) is inapplicable to the current rate case.

- The 2008 Stock Transfer. As with the 2005 Rate Case Settlement, the Settlement Agreement in the 2008 Stock Transfer Docket made clear that no party was bound by whatever took place in that Docket in any future Commission proceeding:

“[T]he parties have varying legal positions regarding the issues in this case...The Parties stipulate and agree that the prefled testimonies of Trent Thompson, Terry R. Lee, Jamie Karabinchak, John Guastella, Willie J. Morgan, and Jeffrey P. Debossnet be entered into the record *as evidence and support that the sale and transfer of stock, assets and operating authority of HPUC to CK is in the public interest. [t]his agreement does not bar or otherwise limit any party from contesting any portion of these prefled testimonies in any future Commission docket or other legal proceeding.*”<sup>5</sup>

Therefore, the assertion that the 2008 Stock Transfer matter limited the ability of the Intervenors to challenge subsequently the Utility’s rate base and/or the value of its assets, is simply incorrect.<sup>6</sup>

- The 2011 Rate Case. That rate case does not establish a rate base that could not be

<sup>4</sup> See, Commission Order No. 2005-436(A), Docket No. 2005-34-WS.

<sup>5</sup> See, Attachment A to Explanatory Brief and Joint Motion to Approve Settlement Agreement and Request for Expedited Review, filed in Docket No. 2007-414-WS.

<sup>6</sup> See, Order No. 2008-448.

1 challenged, subsequently. As I explained in my Direct testimony, DIUC, ORS, and the  
 2 POA's entered into a settlement of that rate case that included the following  
 3 provisions:

4 2. In the current proceeding, the Parties disputed the adjustment in rates,  
 5 fees, and charges that would be necessary to provide DIUC a fair return on  
 6 its investment as well as the rate of return and other matters.

7  
 8 3. The Parties agree and stipulate that DIUC shall be allowed to set rates  
 9 and charges on a rate base of \$5,000,000. **This stipulated rate base shall**  
 10 **not be binding in future proceedings, instead those proceedings will be**  
 11 **determined based on the evidence presented in each docket and the**  
 12 **applicable law.**

13 . . .

14 13. The Parties agree that this Settlement Agreement does not constrain,  
 15 inhibit or impair in any way the arguments or positions they may choose  
 16 to assert in future proceedings.<sup>7</sup>

17  
 18 Mr. Guastella's first three "conclusive facts" are directly refuted by the very Commission  
 19 Orders upon which those "facts" are based, as well as by the three settlement agreements into  
 20 which DIUC entered.

21 **Q: PLEASE ADDRESS THE FOURTH "CONCLUSIVE FACT" MR.**  
 22 **GAUSTELLA CITES REGARDING THE COMMISSION-APPROVED 2012**  
 23 **FINANCING WITH SUNTRUST BANK.**

24 **A:** Mr. Gaustella's assertion that the Commission-approved 2012 financing with Sun  
 25 Trust Bank somehow establishes DIUC's rate base, is patently absurd.<sup>8</sup> DIUC's  
 26 applications for these approvals<sup>9</sup> do not mention DIUC's rate base or include any  
 27 matter relating to rate base. Likewise, the Commission's orders approving these

<sup>7</sup> See, Order No. 2012-515, Attachment 1, pp. 2, 4.

<sup>8</sup> See, Commission Docket No. 2012-397-WS.

<sup>9</sup> See, Id.

1 applications mention nothing about DIUC's rate base or its financial or rate making  
 2 data in general.<sup>10</sup> This is consistent with my knowledge of other utility commission  
 3 financing orders, which are never intended to have any affect on the determination of  
 4 rates.

5 **Q: MR. GAUSTELLA'S FIFTH "CONCLUSIVE FACT" STATES THAT THE**  
 6 **ORS TESTIMONY DOES NOT AGREE WITH YOURS. PLEASE COMMENT.**

7 **A:** Mr. Gaustella's "fact" suggests that either Intervenors are limited to addressing only  
 8 issues that have been raised by ORS, or that only ORS and Company  
 9 recommendations are worthy of consideration. Mr. Gaustella is incorrect. The fact that  
 10 ORS did not raise imputation of CIAC as an issue does not preclude Intervenors from  
 11 doing so. This Commission can accept recommendations from parties other than the  
 12 Company or the ORS. Regardless, the ORS witnesses had not seen my latest analysis  
 13 prior to filing their Direct Testimony; thus, it is speculative for Mr. Gaustella to  
 14 conclude that ORS disagrees with my analysis and recommendations.

15  
 16 **Q: FINALLY, WHAT DOES MR. GAUSTELLA'S SIXTH "CONCLUSIVE**  
 17 **FACT" STATE?**

18 **A:** Mr. Gaustella's sixth "fact" states:

19 *There is no evidence that the lot purchasers paid for anything other than the value of*  
 20 *the real estate, and other than minor tap in fees no connection fees to fund utility plant*  
 21 *assets.*

22  
 23 Mr. Guastella attempts to sidestep what I demonstrated in my Direct Testimony (and

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<sup>10</sup> See, Order Nos. 2012-930 and 2013-605.

1 which he did not refute); the developer donated the utility plant to the Utility. From a  
2 ratemaking perspective, the point is not whether the lot owners paid for the system in  
3 their lot purchases, but that the Utility *did not* pay for the system. Accordingly, the  
4 rates established in 1986 and in effect until 2005 did not include any recovery of  
5 system investment or any return on system investment. DIUC has failed to  
6 demonstrate that the plant in question was not contributed. I have clearly shown that a  
7 large portion of DIUC's plant is CIAC. Here are the *real* conclusive facts:

8 1. Haig Point Utility Company only sought to recover operating costs in  
9 its initial rate case filing with this Commission, and recovered only operating costs in  
10 its rates from 1987 until its 2004 rate case. (Exhibit CEL-R4).

11 2. International Paper wrote off all the utility plant in 1997 (Exhibit One  
12 to Surrebuttal Testimony of Charles Loy in initial rate case) and subsequent Annual  
13 Reports to the Commission show \$-0- utility plant balances through 2003.

14 3. The Utility's balance sheet as of June 30, 2004 shows over \$4 million  
15 of plant suddenly appearing. The plant values were derived from an engineering study  
16 that used bids, county plats and other documentation. The supporting accounting  
17 entries debit plant and erroneously credit "paid in capital" when CIAC should have  
18 been credited. (Exhibit CEL-R1)

19 4. The purchase price paid to International Paper suggests only the  
20 reimbursement of the newly constructed elevated water tank and well number 3, and  
21 not any payment for system plant. Furthermore, the purchase price is in an amount far  
22 lower than the total claimed plant values transferred to CK Materials. (Exhibit CEL-  
23 R6).

**Q: ARE THERE OTHER OBSERVATIONS THAT YOU HAVE WITH MR. GAUSTELLA'S REBUTTAL TESTIMONY?**

**A:** Yes, he did not address the under-depreciated plant or DIUC's failure to comply with NARUC and GAAP in its recording of Accumulated Depreciation.

**Q: WHAT WOULD BE THE EFFECT IF THE COMMISSION DOES NOT REMOVE DONATED PLANT FROM RATE BASE OR REDUCE RATE BASE TO REFLECT ACTUAL PLANT UTILIZATION, BUT DOES ADJUST TEST YEAR DATA TO ACCURATELY REFLECT ACCUMULATED DEPRECIATION?**

**A:** The Commission should then adjust DIUC's asserted test year data to include the accumulated depreciation necessary to comply with NARUC and GAAP. Table 1 below reflects those adjustments. Mr. Lanier presents the computation of the resulting revenue requirement in his Surrebuttal Testimony.

TABLE 1

<b>INCREASE RATE BASE AND DEPRECIATION EXPENSE TO REFLECT NARUC/GAAP STRAIGHT LINE</b>		
	<b>Water</b>	<b>Sewer</b>
Accumulated Depreciation	(\$848,164)	(\$1,430,015)
Depreciation Expense	\$39,880	\$51,148
CIAC Increase	(\$5,757)	(\$3,029)

**Q: DOES THIS CONCLUDE YOUR SURREBUTTAL?**

**A:** Yes.